

Idaho Economic Forecast

Dirk Kempthorne, Governor

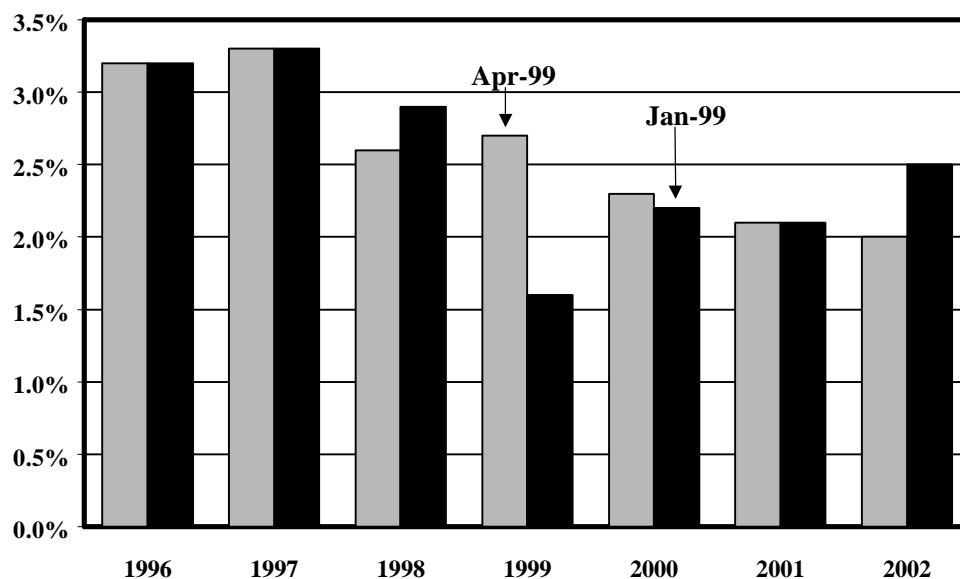
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- Forecast 1998-2002
- A Better CPI
- Alternative Forecasts

Idaho Nonfarm Employment Growth



**Idaho
Economic
Forecast
1998 - 2002**

State of Idaho
Dirk Kempthorne
Governor

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PREFACE

Idaho has entered its second century of statehood on solid economic ground. After nearly a decade of stop and start economic performance, the 1980s closed with a much-welcomed economic expansion. While not as sharp as the boom years of the 1970s, today's employment and income growth are exceptional in comparison to the 1980s. Much of the current expansion results from Idaho's successful adjustment (and sometimes painful restructuring) of its key basic industries.

Our traditional industries, such as lumber and wood products, food processing, and mining, have become more competitive. Our high-tech sector, which includes Hewlett-Packard, Zilog, and Micron Technology, has bucked recent national trends and undergone substantial expansion. In addition, the tourism and travel sectors have benefited from past investments in such projects as the Coeur d'Alene Resort, the convention centers in Boise and Nampa, and the Kellogg Gondola. Thus, the restructured Idaho economy is better positioned to exploit growth opportunities that will arise this decade, and is expected to sustain solid growth well through the 1990s.

A particularly satisfying aspect of the Gem State's passage into the 1990s is the broad base of economic health in Idaho today. Tourism, high-tech manufacturing, and the commercial sectors are thriving. After persevering through hard times, Idahoans are enjoying the benefits of the state's economic success on a wide geographical basis. Many of Idaho's rural communities that lagged urban growth rates during the 1980s have grown recently. Almost two-thirds of Idaho cities lost population during the previous decade. Many are now rebounding.

While many changes are taking place today, other traditional factors still hold firm. Most notably, Idaho's economy remains directly tied to its resource base. While displaying more resilience to downturns than in the past, these industries are not totally immune from business cycle effects. This heavy dependency on natural resources will bring a host of challenges as Idaho enters the next century. These include competition among agriculture, fisheries, and expanding population needs for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory near Idaho Falls and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the March 1999 Standard and Poor's DRI baseline forecast of the U.S. economy. The January 1999 *Idaho Economic Forecast* was based on the November 1998 DRI national forecast.

The near-term outlook for the Idaho economy has improved noticeably compared to the previous forecast. For example, in the January 1999 edition of the *Idaho Economic Forecast* it was reported that the Gem State's nonfarm employment would rise just 1.6% in 1999, 2.2% in 2000, 2.1% in 2001, and 2.5% in 2002. Thanks to the significantly higher expectations for the national economy, the state's nonfarm employment is now expected to average about 2.3% in each year of the forecast. A comparison of these growth rates is illustrated on the cover of this publication.

FEATURE

"A Better CPI" is the feature article in this *Forecast*. The consumer price index (CPI) is the most widely recognized and used measure of U.S. inflation. Given its popularity, it is important that this measure be as accurate as possible. To that end, the U.S. Bureau of Labor Statistics (BLS) has been identifying and measuring problems with the CPI, and working toward solutions. This article serves as an excellent primer to explain the different types of biases that plague the current CPI, the BLS actions to remove these biases, and the possible implications for monetary policy. This article was written by Allison Wallace and Brian Motley. Ms. Wallace is a Research Associate at the Federal Reserve Bank of San Francisco and Mr. Motley is a Research Officer with the Bank.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI examines the effects of different economic scenarios, including the potential impacts of international recessions; higher inflation; and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are described in the text.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1983 to 2002 and for every quarter from 1996 through 2001. The solution of the Idaho Economic Model for this forecast begins with the fourth quarter of 1998.

Descriptions of the DRI U.S. Macroeconomic Model and the Idaho Economic Model are provided in the Appendix. Equations of the Idaho Economic Model and variable definitions are listed in the last pages of this publication.

CHANGES

The employment numbers that appear in this publication are based on monthly data supplied by the Idaho Department of Labor. These data extend through the fourth quarter of 1998. The estimates for the first nine months of 1998 have been benchmarked, while the monthly estimates for the fourth quarter are preliminary. All the monthly data have been seasonally adjusted and converted into quarterly estimates by DFM.

Usually the largest discrepancies occur between the most recently benchmarked quarter and its preliminary estimate. However, a review of the first two quarters of 1998 shows significant differences. Specifically, the first quarter of 1998 is now 2,914 lower than was previously estimated and the second quarter is down 3,031. Most of this change reflects the downward revision to the finance, insurance, and real estate sector. The U.S. Bureau of Labor Statistics determined that 3,600 of the jobs classified as noncovered real estate should be classified as self-employed. Thus, these jobs were removed from the nonfarm employment count. This creates a series break that begins in the first quarter of 1998. If these jobs had not been reclassified, total employment would have actually been slightly higher in the first three-quarters of last year.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis' (BEA) estimates of Idaho quarterly personal income through the third quarter of 1998. The personal income data for the first and second quarters of 1998 have been revised. The BEA is scheduled to release the next round of Idaho personal income estimates in late April 1999. These estimates will run through the end of 1998.

The *Idaho Economic Forecast* is available on the Internet at <http://www.state.id.us/dfm/econinfo.htm>. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at <http://www2.state.id.us/dfm/econinfo.htm>.

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